

Arizona State Retirement System Board



Real Estate Asset Class Review

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October 21, 2005

Agenda

- Background
- ASRS Real Estate Program Snapshot
- Allocation/Committed/Funded Summary
- Real Estate Market Profile
- ASRS Real Estate Program Implementation
- ASRS Phoenix/Tucson Buildings
- What's Next ...

Background

- The Board approved a 6% strategic asset allocation target to institutional real estate (2003).
- Hired a real estate consultant, an IMD real estate portfolio manager, and legal counsel (2003-04).
- Developed ASRS Real Estate Plan document which was approved by the Board in July 2004.
- Over the past 12 months, developed the processes, infrastructure, etc. required to implement the Plan.
- Selected and/or funded nine (9) real estate managers which includes one (1) internally-managed REIT portfolio.

Real Estate Investment Program
6% Total Fund Allocation
\$1.3 Billion (approx)

Core (70%)
\$922mm

Non-Core (30%)
\$395mm

Private Core (60%)
\$790mm

Public Core (10%)
\$132mm

Office (30%, \$237mm)

•Lincoln –Joint Venture (JV)
 \$100mm

•Hines — Commingled Fund
 \$16mm (funded 9/1/05)

Industrial (20%, \$158mm)

•Kennedy —JV \$50mm

•TIAA/CREF—JV \$50mm

Retail (25%, \$198mm)

Multi-family (20%, \$158 mm)

Other (5%, \$39mm)

Active REIT (75%, \$102mm)

•Urdang (L) - \$50mm (\$25m
 funded 10/1/05)

•ING/Clarion (L) - \$30mm
 (\$15m funded 10/1/05)

•ING/Clarion (L/S) - \$20mm

Passive REIT (25%, \$30mm)

•E5 Portfolio – \$30mm (10/1/05
 funding)

•Tishman Office - \$25mm -
 (\$10 mil funded 9/16/05)

•Rothschild Multi-Strategy -
 \$75mm

Red = funded

Blue – anticipate all/partial funding in
 4th Qtr05

Green – anticipate contracts signed in
 4th Qtr2005, funding to occur over a
 subsequent 12-24 months.

Note: above as of Oct 1 2005

ASRS Real Estate Program

Allocation/Committed/Funded Summary

(as of Oct 1 2005)

Portfolio	Allocation (\$MM)	Committed (\$ / (% Alloc.))	Funded (\$ / (% Committed)
Core	\$922	\$346 / 38%	\$86 / 25%
Non-Core	\$395	\$100 / 25%	\$10 / 10%
Total Program	\$1,317	\$446 / 33%	\$96 / 22%

ASRS Real Estate Program

Allocation/Committed/Funded Summary

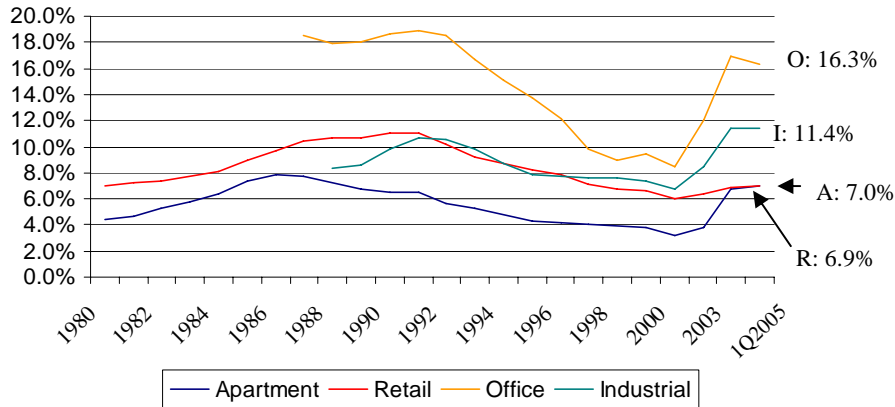
(anticipated as of Dec 31, 2005)

Portfolio	Allocation (\$MM)	Committed (\$ / (% Alloc.)	Funded * (\$ / (% Committed)
Core	\$922	\$346 / 38%	\$106 / 31%
Non-Core	\$395	\$100 / 25%	\$25 / 25%
Total Program	\$1,317	\$446 / 33%	\$131 / 29%

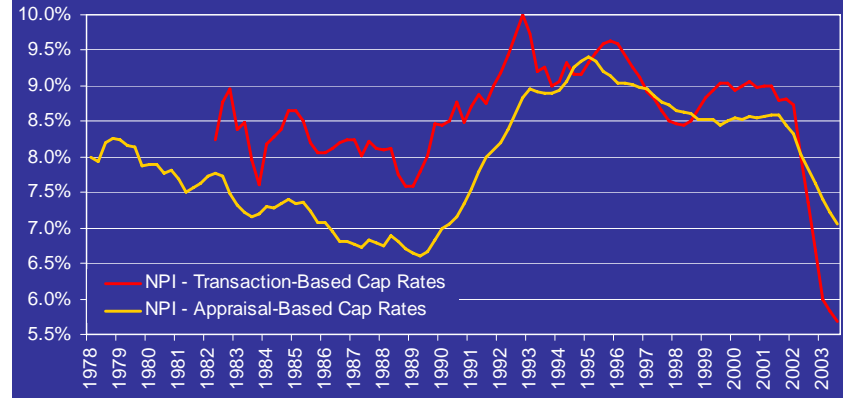
•Includes \$20 mil ING L/S (Core) and \$15 mil Rothschild (Non-Core)

Real Estate Market Environment

National Vacancy Rates

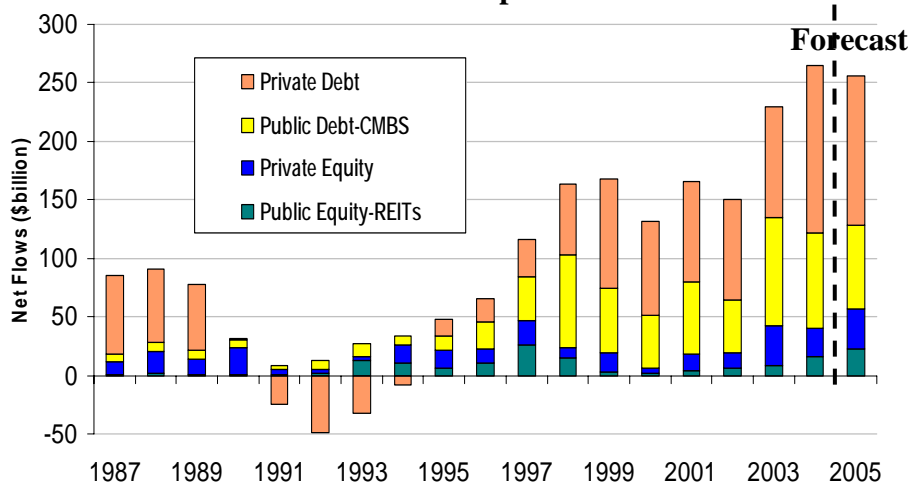


NCREIF Cap Rates - Appraisal vs. Transaction-Based



Sources: NCREIF; Prudential Real Estate Investors

Real Estate Capital Flows



Index Performance (2Q05)

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>Historical</u>
NCREIF Total	18.0%	12.1%	10.6%	9.7%
Income	7.1	7.7	8.1	8.1
Appreciation	10.4	4.2	2.4	1.6
NAREIT	32.7%	20.6%	20.5%	14.8%

Source: LaSalle Investment Management Research, Federal Reserve, NCREIF, NAREIT, Roulac Capital Flows Database, Real Estate Capital Markets Report, Real Estate Finance

ASRS Real Estate Plan Implementation (tactical & strategic)

Core RE

- **Separate Account JVs**
 - Office and Industrial Focus
 - Core Plus Flexibility
- **Pooled Funds:** Central Business District (CBD) Office
- **REITs:** Long and Long/Short Strategies

Non-Core RE

- **Niche Strategies under considerations:** REOCs, Lodging, Mezz. Debt and Single Family Development
- **Office:** Property being repositioned or redevelop in primary east/west coast markets

ASRS Phoenix/Tucson Buildings

	3300 Tower	JV Land	Broadway Proper
<u>Physical:</u>			
Location	Phoenix	Phoenix	Tucson
Property Type	High Rise Office	Vacant Land	Suburban Office
# Stories	26	-----	3
Bldg Sq. Ft.	363,655	-----	52,875
Land Sq. Ft.	224,200	69,531	200,304
Parking Spaces	1,053	-----	253
Occupancy %	81.6%	-----	70.3%
# Tenants	33	-----	24
<u>Economics:</u>			
Property Value (Includes Land Value)	\$23,200,000 (\$64/SF)	\$765,000 (\$22/SF)	\$2,800,000 (\$53/SF)

Source: CB/Richard Ellis

Phoenix/Tucson Buildings Performance

(period ending 6/30/05)

Property	One Year	Three Years	Five Years	Since Inception *
3300 Tower (Phoenix)	3.66%	4.24%	-4.22%	4.16%
Broadway Proper (Tucson)	0.75%	1.48%	6.45%	4.73%

* 3300 Tower - 8/92; Broadway Proper - 12/95

ASRS Phoenix/Tucson Buildings

Notables

3300 Tower (Phoenix)

- Moderately attractive location
- Stable-to-increasing occupancy
- Lower rental rates
- Higher tenant improvements and leasing commissions
- Building capital improvements (lobby, elevators, other)

Broadway Proper (Tucson)

- Suburban Garden Office
- Stable rental rates and tenant improvement costs
- Declining occupancy rates primarily due to competing, newer, more attractive office condo availability

Note: As part of their contract, ASRS Core Office mgr will review the operational efficiency, provide appraisals and recommend to the RE Committee for consideration matters regarding the management of these buildings and the joint-venture parcel adjacent to the 3300 Tower.

What's Next ...

- Propose 2006 Legislative Investment-related statute amendment
- Continue to tactically implement the RE Program, i.e., core and non-core markets relative value, product availability, etc.
- Hire an addln. IMD Portfolio Analyst - focus on RE, other IMD quantitative functions.
- Initiate CIO/Director participation on non-core, other RE estate advisory boards.
- Organize a Real Estate Roundtable – ASRS RE mgrs, Courtland, RE Commt., others.
- Establish an institutional real estate research repository for the receipt, review and discussion of the real estate markets.

- ASRS Investment Principles